Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Message Text

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PAGE 01 ROME 03649 01 OF 02 071727Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 FEAE-00 FPC-01 H-01 INR-07 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-04 USIA-06 OES-06 SP-02
SS-15 STR-04 TRSE-00 ACDA-07 NEA-10 /109 W
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R 071610Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3171
INFO AMCONSUL FLORENCE
AMCONSUL GENOA
AMCONSUL MILAN
AMCONSUL NAPLES
AMCONSUL PALERMO
AMCONSUL TRIESTE
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LIMITED OFFICIAL USE SECTION 1 OF 2 ROME 3649

E.O. 11652: NA
TAGS: ENRG, IT
SUBJ: THE OIL COMPANIES VIEW FUTURE WITH OPTIMISM

REFS: (A) 76 ROME 20789; (B) 76 ROME 16605

SUMMARY: RECENT CONVERSATIONS WITH HIGH-LEVEL OPERATING OFFICIALS OF US-OWNED MULTINATIONAL OIL COMPANIES IN ITALY HAVE REVEALED AN OPTIMISM ABOUT THE FUTURE NOT SEEN IN RECENT YEARS. MAJOR REASON FOR THE NEW ATTITUDE IS INCREASED GOI RECOGNITION OF OIL COMPANIES' PROBLEMS COUPLED WITH WILLINGNESS TO TAKE CONCRETE, TIMELY MEASURES TO RESOLVE THEM. PROBLEMS AND WORRIES REMAIN, BUT COMPANIES
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PAGE 02 ROME 03649 01 OF 02 071727Z

FORESEE BETTER RESULTS IN 1977 DESPITE LOW GROWTH IN ITALIAN PETROLEUM PRODUCT CONSUMPTION. END SUMMARY.

1. DURING RECENT CONVERSATIONS WITH EMBOFF, HIGH-LEVEL OPERATING OFFICERS OF MAJOR U.S.-OWNED PETROLEUM COMPANIES (ESSO, MOBIL, CHEVRON, TEXACO, GULF) IN ITALY EXPRESSED CONSIDERABLE OPTIMISM RE OUTLOOK FOR 1977 AND FUTURE.

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

COMPANY REPS CITED NEW GOI ATTITUDE TOWARDS COMPANIES AS MAJOR REASON FOR NEW OUTLOOK; IN RECENT MONTHS, GOI HAS BEEN ATTENTIVE TOWARD COMPANIES AND SHOWED INCREASED COMPREHENSION OF THEIR PROBLEMS. MORE TANGIBLY:

(A) MAXIMUM PRICE LEVEL DETERMINATION: GOI IS PREPARING TO SUBSTITUTE OLD FORMULA USED TO COMPUTE MAXIMUM PETROLEUM PRODUCT PRICE LEVELS WITH NEW, AND FROM COMPANIES' VIEWPOINT, IMPROVED METHOD. MAJOR PROBLEMS WITH OLD METHOD HAVE BEEN LONG LENGTH OF TIME BETWEEN COST INCREASE, GOI REVIEW AND SUBSEQUENT PRICE ADJUSTMENT AND GOI DISCRETIONALITY IN APPLICATION. NEW METHOD, WHICH IS CURRENTLY BEING CIRCULATED TO COMPANIES FOR THEIR COMMENTS, HAS VERY SUBSTANTIAL AUTOMATICITY; THAT IS, COST INCREASES AUTOMATICALLY TRIGGER INCREASES IN PRICE LEVELS. ALSO IMPROVED WILL BE METHODS USED TO FIGURE COSTS, PARTICULARLY FINANCIAL CHARGES. PRESS REPORTS INDICATE THAT SOME PRODUCT PRICES (HEAVY FUEL OIL AND PETRO-CHEMICAL NAPHTHA) MAY BE ALLOWED TO FLUCTUATE IN RESPONSE TO MARKET FORCES.

(B) PRICE LEVEL ADJUSTMENTS: REPRESENTATIVE OF NEW ATTITUDE, ACCORDING TO COMPANY REPS, WAS RAPID (ONE WEEK) MAXIMUM PRICE LEVEL ADJUSTMENT AFTER GOI IMPOSED (IN OCTOBER 1976) 7 PERCENT SURCHARGE ON FOREIGN EXCHANGE PRUCHASES AND INCREASES CONCEDED IN WAKE OF GOI-DECREED PRIOR DEPOSIT SCHEME. NOT LOST ON COMPANIES WAS FAILURE OF GOI TO REDUCE MAXIMUM PRICE LEVELS AS THESE MEASURES WERE DISMANTLED. COMPANIES WERE FURTHER PLEASED WITH PROMPT (FEB. 8) GOI RECOGNITION OF INCREASED CRUDE COSTS STEMMING FROM JAN. 1 OPEC PRICE DECISION; LIMITED OFFICIAL USE

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PARTICULARLY SO BECAUSE GOI SET NEW LEVELS BASED ON 8.5 PERCENT CRUDE COST INCREASE. (PREDICTABLY, ARAMCO PARTNERS - MOBIL, TEXACO, ESSO, AND CHEVRON - WERE PLEASED BUT EVEN GULF INDICATED NO SIGNIFICANT PROBLEMS WITH 8.5 PERCENT INCREASE.)

(C) PUBLIC ATTITUDES: REPS INDICATED PLEASURE AT MORE FRIENDLY (ANYWAY, LESS HOSTILE) ATTITUDE OF PRESS TOWARDS COMPANIES. EVEN LEFTIST, COMPANY-BAITING ROME DAILY IL MESSAGGERO HAD DIMINISHED ITS ANTI-COMPANY COVERAGE. THERE WAS SOME FEELING THAT THIS INDICATED INCREASED MATURITY ON PART OF PRESS COUPLED WITH GREATER PUBLIC RECOGNITION THAT HIGH PETROLEUM PRODUCT PRICES WERE CAUSED BY OPEC AND GOI TAXES, NOT THE COMPANIES.

2. PERHAPS PREDICTABLY, COMPANY REPS FELT THAT NEW ATTITUDE REFLECTED INCREASING RECOGNITION OF THE COMPANIES' INDIS-PENSABILITY, BASED ON THEIR CONTINUED FAVORED ACCESS TO CRUDE (RE-EMPHASIZED IN WAKE OF JAN. 1 OPEC PRICE DECISIONS) AND AWARENESS THAT STATE-OWNED COMPANY ENI WOULD BE UNABLE

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

TO ABSORB A LARGER MARKET SHARE. POLITICAL FACTORS ARE
CITED AS WELL; INCREASED COMPREHENSION OF ENERGY SITUATION
BY MINISTER OF INDUSTRY DONAT CATTIN AND HIS COLLABORATORS
IN THE ENERGY SECTOR (I.E. MININD DIRECTOR GENERAL FOR
ENERGY AFFAIRS AMMASSARI) AND PRIME MINISTER ANDREOTTI'S
PRAGMATIC INFLUENCE. NON-HOSTILE COMMUNIST PARTY (PCI)
STATEMENTS ON COMPANIES MAY ALSO HAVE HAD SOME INFLUENCE.
AS WELL, PETROLEUM SCANDALS WHICH MADE HEADLINES IN 1974-6
HAVE VIRTUALLY DISAPPEARED FROM PUBLIC NOTICE. COMMENT:
COMPANY REPS DID NOT RPT NOT DWELL ON POSSIBLE EFFECTS
STEMMING FROM THEIR BARELY CONCEALED THREATS TO ABANDON
THE ITALIAN MARKET. THESE REACHED SOMETHING OF A CRESCENDO
LAST AUTUMN WITH VARIOUS ESSO ITALIAN MANEUVERS (SEE REFS),
RUMORS THAT INDEPENDENT ITALIAN OILMAN ATTILIO MONTI WOULD
SELL HIS REFINERIES TO (VARIOUSLY) LIBYA, THE GOI, AND/OR
IRAN; AND FRENCH-OWNED TOTAL (CFP GROUP)'S THREATS TO LEAVE.
CERTAINLY, COMPANY REPRESENTATIVES WERE ACTIVE BEHIND THE
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PAGE 04 ROME 03649 01 OF 02 071727Z

SCENES. END COMMENT.

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PAGE 01 ROME 03649 02 OF 02 071736Z
ACTION EB-08

INFO OCT-01 EUR-12 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00
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SS-15 STR-04 TRSE-00 ACDA-07 NEA-10 /109 W
----------071803Z 058836 /46
R 071610Z MAR 77
FM AMEMBASSY ROME
TO SECSTATE WASHDC 3172
INFO AMCONSUL FLORENCE
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Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

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LIMITED OFFICIAL USE SECTION 2 OF 2 ROME 3649

3. WORRIES, OF COURSE, REMAIN. SOME SUSPECT THAT NEW GOI ATTITUDE IS MERELY TACTICAL AND DELAYS IN PROMULGATING THE NEW METHOD HAVE CAUSED SOME ANXIETY. THE GOI IS STILL SEEN AS HARBORING TENDENCIES TO "MEDDLE" IN COMPANY BUSINESS, I.E. GOI SPOKESMEN STILL STRESS THE IMPORTANCE OF MATCHING CRUDE IMPORTS BILATERALLY WITH ITALIAN EXPORT SALES AND CALL FOR GREATER TRANSPARENCY IN THE OIL MARKET. BUT THE COMPANIES' MAJOR CONCERNS APPEAR TO BE THE NORMAL BUSINESS ONES: HIGH COST BO BANK FINANCING IN ITALY (GENERALLY 18-20 PERCENT) AND WORRIES THAT ANY LIRA DEVALUATION WILL NOT BE COMPENSATED BY TIMELY PRICE LEVEL ADJUSTMENTS (WHICH ACCOUNTED FOR SUBSTANTIAL COMPANY LOSSES IN THE FIRST HALF OF 1976). LABOR COSTS, RATIONALIZING REFINERY AND DISTRI-
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BUTION NETWORKS AND ADJUSTING TO NEW PRODUCT MARKETING MIXES ARE OTHER COMPANY CONCERNS.

4. FOR 1977, COMPANIES ARE BY-AND-LARGE EXPECTING IMPROVED RESULTS. PETROLEUM CONSUMPTION IS EXPRECTED TO REMAIN VIRTUALLY AT 1976 LEVELS; GASOLINE TO REMAIN FLAT OR PERHAPS REGISTER A SLIGHT DECLINE (CONSUMPTION FELL ALMOST 14 PERCENT IN JANUARY 1977 FROM JANUARY 1976, ATTRIBUTABLE ONLY IN PART TO INCLEMENT WEATHER), BALANCED BY SLIGHT INCREASES IN CONSUMPTION OF MIDDLE DISTILLATES AND HEAVY FUEL OIL. DESPITE THIS UNPROMISING PERSPECTIVE, MOST EXPECTED TO BREAK-EVEN ON OPERATIONS. HIGH ITALIAN INTEREST RATES LIMIT POSSIBILITIES FOR OVERALL PROFITS, BUT THE EFFECT VARIES: FOR INSTANCE, ESSO IS HEAVILY FINANCED BY SHORT-TERM LOCAL BANK CREDIT WITH EXTREMELY HIGH INTEREST CHARGES; OTHERS ARE FINANCED FROM ABROAD THROUGH THE PARENT COMPANIES AND THUS HAVE MUCH LOWER INTEREST EXPENSES.

5. COMPANY PLANS FOR THE FUTURE ARE STILL CHARACTERIZED BY CAUTION. FOR NOW, NONE ARE CONTEMPLATING INVESTMENTS IN NEW FACILITIES BUT SOME HAVE SOLICITED AND OBTAINED PARENT-COMPANY APPROVAL FOR IMPROVEMENT TO EXISTING FACILITIES. MOBIL FOR INSTANCE IS PLANNING TO UPDATE SOME PROCESSING OPERATIONS AT ITS NAPLES REFINERY. ALL COMPANIES INDICATE THAT THEY WILL STRIVE TO STREAMLINE FURTHER THEIR DOMESTIC OPERATIONS, PATICULARLY TO ELIMINATE INEFFICIENT RETAIL OUTLETS (PROSPECTS ARE NOT GOOD BECAUSE OF LABOR PROBLEMS), CONSOLIDATE REFINERY OPERATIONS AND ELIMINATE (THROUGH ATTRITION) HEADQUARTERS STAFF. MOST IMPORTANTLY, PERHAPS,

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009

IS THAT THE ATMOSPHERE OF DESPAIR AND FRUSTRATION WHICH CHARACTERIZED 1976 HAS LIGHTENED SIGNIFICANTLY. CERTAINLY, ABANDONING ITALY SEEMS LESS ATTRACTIVE AND/OR NECESSARY AT THIS POINT THAN IT DID NOT SO LONG AGO. BEAUDRY

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Control Number: n/a
Copy: SINGLE
Sent Date: 07-Mar-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
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Disposition Date: 22 May 2009
Disposition Event:
Disposition History: n/a
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Litigation History:
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Message ID: 454c81bc-c288-dd11-92da-001cc4696bcc
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22 May 2009
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